

**Movants' HTA Exhibit 121**

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# **Governmental Accounting Standards Series**

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Statement No. 54 of the  
Governmental Accounting  
Standards Board

**Fund Balance Reporting and  
Governmental Fund Type Definitions**



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

*Financial Statements Disclosure*, paragraphs 4 and 5; GASB Statement 33, footnote 9; GASB Statement 34, paragraphs 37, 64, and 65 and footnotes 24 and 38; GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, paragraph 12; GASB Interpretation 4, paragraphs 4 and 7; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, paragraph 16.

## **Governmental Fund Reporting**

### **Fund Balance Reporting**

5. Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications discussed in paragraphs 10–16 and therefore would not report amounts in all possible fund balance classifications.

### ***Nonspendable Fund Balance***

6. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a

permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

7. For purposes of reporting net assets, Statement 34, paragraph 35, requires amounts that are “required to be retained in perpetuity” to be classified as “nonexpendable” within the restricted net asset category. For fund balance reporting purposes, however, those amounts should be classified as nonspendable rather than restricted.

***Restricted Fund Balance***

8. Except as provided for in paragraph 7, amounts that are restricted to specific purposes, pursuant to the definition of *restricted* in paragraph 34 of Statement 34, as amended by Statement No. 46, *Net Assets Restricted by Enabling Legislation*, should be reported as *restricted fund balance*. Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

9. *Enabling legislation*, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

***Committed Fund Balance***

10. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

11. In contrast to fund balance that is restricted by enabling legislation, as discussed in paragraph 9, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process, as explained in paragraph 10. Constraints imposed on the use of *committed* amounts are imposed by the government, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the government that *commit* amounts to specific purposes is not considered to be legally enforceable, as defined in paragraph 9.

12. The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

***Assigned Fund Balance***

13. Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph 21. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

14. Both the committed and assigned fund balance classifications include amounts that have been constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Some governments may not have both committed and assigned fund balances, as not all governments have multiple levels of decision-making authority.

15. Assigned fund balance includes (a) all remaining amounts (except for negative balances, as discussed in paragraph 19) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose in accordance with the provisions in paragraph 13. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt

***Details of Fund Balance Classifications Displayed in the Aggregate***

25. If nonspendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two nonspendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information, as required in paragraph 22, should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the balance sheet, as discussed in paragraph 22, and disclose the details for other classifications in the notes to the financial statements.

***Stabilization Arrangements***

26. Governments that establish stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to the financial statements:

- a. The authority for establishing stabilization arrangements (for example, by statute or ordinance)
- b. The requirements for additions to the stabilization amount
- c. The conditions under which stabilization amounts may be spent
- d. The stabilization balance, if not apparent on the face of the financial statements.

***Minimum Fund Balance Policies***

27. If a governing body has formally adopted a minimum fund balance policy (for example, in lieu of separately setting aside stabilization amounts), the government should describe in the notes to its financial statements the policy established by the government that sets forth the minimum amount.

## **Governmental Fund Type Definitions**

28. Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds, as discussed in paragraphs 29–35.

### ***General Fund***

29. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

### ***Special Revenue Funds***

30. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

31. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.<sup>2</sup> Other

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<sup>2</sup>For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the *fund balance* in the fund's balance sheet.



resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

32. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.

#### ***Capital Projects Funds***

33. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

#### ***Debt Service Funds***

34. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.